

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PA-01 PRS-01 SAM-01 L-03 H-02 /088 W

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R 141540Z AUG 75

FM AMEMBASSY ATHENS

TO SECSTATE WASHDC 038

INFO USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: EFIN, EGEN, GR

SUBJECT: PROPOSED NEW GREEK LEGISLATION TO STIMULATE AND CHANNEL
INVESTMENT

SUMMARY AND COMMENT: SIGNIFICANT NEW FINANCIAL LEGISLATION IS BEING
PREPARED BY GOG FOR SUBMISSION TO PARLIAMENT. THE MAJOR OBJECTIVE
OF THE MEASURES, FROM INFORMATION PRESENTLY AVAILABLE ON THE
UNPUBLISHED DRAFT, IS TO FOSTER PRODUCTIVE INVESTMENT. AMONG THE
MOST SIGNIFICANT MEASURES ARE: A) ENCOURAGEMENT OF OVERSEAS BORROWING
FOR PRODUCTIVE PURPOSES THROUGH LOCAL COMMERCIAL BANKS; B)
ESTABLISHMENT
OF A GOG-ADMINISTERED FUND, THROUGH A LEVY ON BANKS, DESIGNED TO
SUBSIDIZE LOANS FOR PARTICULARLY IMPORTANT PROJECTS; C) PROMOTION OF
DEVELOPMENT OF A LOCAL CAPITAL MARKET THROUGH BOND ISSUES AND
INCREASED EQUITY FINANCING BY CREDIT INSTITUTIONS AND PUBLIC UTILITIES.

COORDINATION MINISTER OFFICIALS ACKNOWLEDGE PRIVATELY THAT SHORT-TERM
STIMULATIVE EFFECTS WILL BE MINIMAL. THEY VIEW THESE MEASURES AS
AMONG FIRST STEPS TOWARDS GOG'S GOAL OF RESTRUCTURING ECONOMY THROUGH
SELECTIVE CHANNELING OF INVESTMENT RESOURCES. OVERALL STREAMLINING
OF CREDIT PROCEDURES, AND GREATER EASE IN OBTAINING FOREIGN FINANCING
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WILL, THEY HOPE, CONTRIBUTE TO GRADUAL RECOVERY FROM LAST YEAR'S

INVESTMENT SLUMP WHEN GROSS FIXED INVESTMENT AT CONSTANT PRICES DROPPED 26 PERCENT FROM 1973. THE NECESSARILY SKETCHY OUTLINE BELOW OBVIOUSLY RAISES MANY QUESTIONS CONCERNING IMPLEMENTATION, TECHNIQUES,

AND IMPLICATIONS OF THE PROPOSED LEGISLATION WHICH CANNOT BE ANSWERED AT THE PRESENT TIME. A MAJOR QUESTION IS FOR EXAMPLE HOW THE PROPOSALS

WILL AFFECT LOCAL INVESTORS' RELUCTANCE TO ASSUME THE EXCHANGE RISKS IMPLICIT IN FOREIGN BORROWING; THE PROPOSED INNOVATION BY THE BANK OF GREECE OF A FOREIGN EXCHANGE GUARANTEE ON EUROPEAN INVESTMENT BANK LOANS COULD BE AN INTERESTING PRECEDENT FOR WIDER APPLICATION OF THIS TECHNIQUE TO ENCOURAGE BORROWING FROM ABROAD FOR PRODUCTIVE INVESTMENT.

END SUMMARY AND COMMENT.

1. MINISTER OF COORDINATION AND PLANNING PAPALIGOURAS ANNOUNCED ON AUGUST 11 THAT LEGISLATION IS UNDER PREPARATION TO FACILITATE INVESTMENT AND IMPROVE THE NATION'S CREDIT SYSTEM. DETAILED INFORMATION

ON THE NEW MEASURES HAS NOT YET BEEN PUBLISHED, AND SINCE THEY ARE STILL IN DRAFT FORM SOME ALTERATIONS MAY OCCUR. A SUMMARY OF THE MAJOR FEATURES FOLLOWS.

2. OVERSEAS BORROWING BY COMMERCIAL BANKS-COMMERCIAL BANKS WILL BE ENCOURAGED TO BORROW ABROAD FOR RELENDING FOR PRODUCTIVE PURPOSES PROVIDED CURRENCY COMMITTEE OF BANK OF GREECE APPROVES EACH TRANSACTION.

IN THE EVENT THE FOREIGN INTEREST RATE EXCEEDS THE DOMESTIC LENDING RATE PERMITTED BY THE CURRENCY COMMITTEE, THE BANK WILL BE REIMBURSED OUT OF PUBLIC FUNDS FOR THE DIFFERENCE. INITIAL REACTION OF LOCAL BANKERS SEEMS FAVORABLE, BUT THERE IS SOME SKEPTICISM OVER CURRENCY COMMITTEE'S ABILITY TO HANDLE APPROVAL MECHANISM RAPIDLY AND SMOOTHLY

A MAJOR FACTOR IS THAT UNCERTAINTY OVER PARITY FLUCTUATIONS HAS REDUCED WILLINGNESS ON PART OF INVESTORS TO UNDERTAKE FOREIGN EXCHANGE OBLIGATIONS. RESULT IS THAT INVESTORS BORROW IN DRACHMAS TO FINANCE IMPORTED EQUIPMENT NEEDS, WITH CONSEQUENT BURDEN ON BALANCE OF PAYMENTS. GOG WOULD PREFER TO ENCOURAGE INVESTORS TO FINANCE THESE REQUIREMENTS DIRECTLY THROUGH OVERSEAS BORROWING.

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3. TWO OTHER PROPOSED MEASURES IN SAME DIRECTION ARE:

(A) COMMERCIAL BANKS WOULD BE PERMITTED TO GRANT LOANS DENOMINATED IN FOREIGN CURRENCIES, PARTICULARLY FOR SHIPPING SECTOR; AND
(B) BANK OF GREECE WOULD UNDERWRITE ANY FOREIGN EXCHANGE LOSS ENCOUNTERED BY COMMERCIAL BANKS IN THE CHANNELING OF EUROPEAN INVESTMENT BANK LOANS.

4. SUBSIDIZED INTEREST RATES FOR KEY INVESTMENTS-GOG PLANS TO

ESTABLISH A FUND, THROUGH LEVY ON BANKING COMMUNITY (INCLUDING BANK OF GREECE), TO SUBSIDIZE INVESTMENTS IN KEY AREAS. BANKS WOULD BE REQUIRED TO CONTRIBUTE ONE TENTH OF ONE PERCENT OF OUTSTANDING BANK CREDITS. ANTICIPATED REVENUE FROM LEVY WOULD REACH 450 MILLION DRACHMAS ANNUALLY, A FIGURE CONSIDERED SUFFICIENT TO PROVIDE A 4-UNIT INTEREST RATE REDUCTION ON LOANS TOTALLING 11 BILLION DRACHMAS

ADDITIONAL FUNDS MIGHT BE MADE AVAILABLE, IF NECESSARY, FROM THE STATE BUDGET. ONE LOCAL BANKER COMMENTED THAT THE COST OF THIS LEVY WOULD BE PASSED ON TO THE CUSTOMER, THUS AT LEAST IN PART (I.E., ON BANK LOANS FOR PRODUCTIVE INVESTMENT) COUNTERING THE EFFECT WHICH THE GOG IS SEEKING.

5. DEVELOPMENT OF LOCAL CAPITAL MARKET- CREDIT INSTITUTIONS AND PUBLIC UTILITIES WILL BE ENCOURAGED TO ISSUE LONG-AND SHORT-TERM BONDS, AND INCREASE SHARE CAPITAL, INCLUDING IN BONDS AND SHARES DENOMINATED IN FOREIGN EXCHANGE. IT IS NOT AT PRESENT CLEAR WHETHER THERE WILL BE SPECIFIC MEASURES OR INCENTIVES (BEYOND MORAL SUASION) TO ACHIEVE THIS OBJECTIVE. BANK OF GREECE GOVERNOR ZOLOTAS REPORTEDLY WOULD ALSO FAVOR ESTABLISHMENT OF MARKET FOR REDISCOUNTING OF CERTIFICATES OF DEPOSIT, BUT THERE IS NO OFFICIAL VERIFICATION THAT SUCH A STEP IS BEING ACTIVELY CONSIDERED FOR IMPLEMENTATION AT PRESENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENT LAW, INVESTMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ATHENS06190
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750281-1023
From: ATHENS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750850/aaaabrsz.tel
Line Count: 139
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2003 by CunninFX>; APPROVED <10 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED NEW GREEK LEGISLATION TO STIMULATE AND CHANNEL INVESTMENT
TAGS: EFIN, EGEN, GR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006